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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/02 AND ENDING 12/31/02  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

UBS Warburg LLC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

677 Washington Boulevard

OFFICIAL USE ONLY

FIRM ID. NO.

Stamford

(No. and Street)  
CT

06912

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Ernst & Young LLP

(Name - of individual, state last, first, middle name)

5 Times Square

New York

NY

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

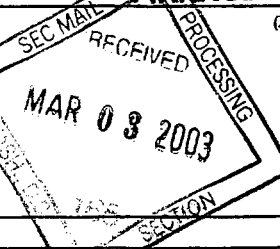
- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

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PROCESSED

MAR 20 2003

THOMSON  
FINANCIAL 10036



\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

MAR 19 2003

## OATH OR AFFIRMATION

This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims or Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A or Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☐ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

UBS Warburg LLC  
Statement of Financial Condition

*December 31, 2002*

## Report of Independent Auditors

The Members of  
UBS Warburg LLC

We have audited the accompanying statement of financial condition of UBS Warburg LLC (the "Company") as of December 31, 2002. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of UBS Warburg LLC at December 31, 2002, in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*  
*Ernst & Young LLP*

January 27, 2003

UBS Warburg LLC  
Statement of Financial Condition  
December 31, 2002  
(In Thousands)

**Assets**

Cash	\$ 33,629
Receivables from customers	1,468,106
Receivables from brokers, dealers and clearing organizations	3,499,676
Securities borrowed	88,359,255
Securities purchased under agreements to resell	101,767,604
Securities owned, at fair value	\$74,440,615
Securities owned, pledged as collateral, at fair value	<u>33,164,443</u>
Total securities owned	107,605,058
Securities received as collateral	90,915
Exchange memberships, at cost (fair value \$24,264)	14,957
Goodwill (net of accumulated amortization of \$39,601)	462,684
Dividends and interest receivable	1,315,516
Other assets	<u>1,939,199</u>
	<u>\$ 306,556,599</u>

**Liabilities and Members' Equity**

Short-term borrowings	\$ 18,849,200
Payables to customers	3,233,829
Payables to brokers, dealers and clearing organizations	3,892,079
Securities loaned	14,543,535
Securities sold under agreements to repurchase	214,699,410
Securities sold, not yet purchased, at fair value	38,204,874
Obligation to return securities received as collateral	90,915
Dividends and interest payable	940,238
Other liabilities and accrued expenses	<u>3,855,686</u>
	298,309,766
 Subordinated borrowings	 5,350,000
 Members' equity	 <u>2,896,833</u>
	<u>\$ 306,556,599</u>

*See accompanying notes.*

UBS Warburg LLC  
Notes to the Statement of Financial Condition  
December 31, 2002  
*(In Thousands)*

**1. Organization**

UBS Warburg LLC (the "Company") is an indirect wholly-owned subsidiary of UBS AG (the "Parent"). The Company is a registered broker and dealer under the Securities Exchange Act of 1934 and is a member of the New York Stock Exchange, Inc. ("NYSE"), the National Association of Securities Dealers, Inc. and other principal exchanges. In addition, the Company is a registered futures commission merchant and a member of certain major United States commodity exchanges. The Company is also a primary dealer in U.S. Government securities and provides a full range of investment banking services, including corporate finance, mergers and acquisitions, capital markets, trading and sales, fixed income and equity research.

UBS (USA) Inc., UBS Americas Inc, and UBS PaineWebber Inc., direct or indirect wholly owned subsidiaries of the Parent, own all of the Company's Preferred Members' Shares outstanding, and together with the Parent, own all of the Company's Class A and B Members' Shares. See Note 8 for additional information.

**2. Significant Accounting Policies**

Customers' securities and commodities transactions are recorded on a settlement date basis. Proprietary securities and commodities transactions are recorded on a trade date basis.

Securities owned and securities sold, not yet purchased are stated at fair value. Fair value generally is based on published market prices or other relevant factors including dealer price quotations and pricing models which take into account time value, volatility and other factors underlying the securities.

The Company securitizes various consumer and commercial financial assets. As a result of these securitizations, it may temporarily retain one or more beneficial interests in the securitized assets, including senior and subordinated tranches, interest-only strips or other residual interest ("retained interests"). Retained interests are primarily recorded in securities owned at their current fair value. The fair value of retained interests is determined by quoted market prices, when available. If quoted market prices are not available, fair value is determined using pricing models which incorporate management's best estimates of critical assumptions.

Securities purchased under agreements to resell and securities sold under agreements to repurchase generally are collateralized by U.S. Government, agency and mortgage-backed securities and are carried at the amounts at which the securities will be subsequently resold or repurchased. Open repurchase and resale transactions are presented net in the accompanying statement of financial condition where net presentation is permitted. It is the Company's policy to take possession of securities purchased under agreements to resell. Collateral is valued daily and additional collateral is obtained from counterparties when appropriate. Counterparties are principally primary dealers of U.S. Government securities and financial institutions.

UBS Warburg LLC  
Notes to the Statement of Financial Condition  
December 31, 2002  
*(In Thousands)*

**2. Significant Accounting Policies (continued)**

Securities borrowed and loaned result from transactions with other brokers and dealers or financial institutions and are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. Securities loaned transactions require the borrower to deposit cash with the Company. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

Interest is accrued on repurchase and resale contract amounts, securities borrowed and loaned transactions, and interest bearing trading assets and liabilities included in securities owned and securities sold, not yet purchased. Dividends are accrued on equity securities owned and securities sold, not yet purchased on ex-dividend date. Such interest and dividends are included in dividends and interest receivable, and dividends and interest payable on the statement of financial condition.

Fixed assets include furniture and equipment, which are depreciated using the straight-line method over the useful lives of the assets, and leasehold improvements, which are amortized using the straight-line method over the shorter of the lease term or useful life. Fixed assets are included in the Company's statement of financial condition as a component of other assets.

The Company is a limited liability company that is treated as a partnership for U.S. tax purposes. As such, it is not subject to Federal or State income taxes as all taxable income and losses and deductions flow through to the Class A and B Members. The Company is subject to New York City Unincorporated Business Tax.

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the statement of financial condition and accompanying notes. Actual results may differ from those estimates.

In July 2001, the Company adopted the effective provisions of Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets". SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and SFAS 142 disallowed the amortization of goodwill and intangible assets with indefinite lives. Instead, these assets are subject to annual impairment tests. Other intangible assets continue to be amortized over their useful lives.

The Company did not adopt certain provisions of SFAS 142 until January 1, 2002 as permitted by the standard. Upon adoption, certain intangible assets totaling \$145,342 were reclassified from Other assets to Goodwill on the statement of financial condition. The Company holds no intangible assets with indefinite useful lives.

UBS Warburg LLC  
Notes to the Statement of Financial Condition  
December 31, 2002  
*(In Thousands)*

**2. Significant Accounting Policies (continued)**

In January 1, 2002, the Company adopted SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The provisions of the new standard are generally to be applied prospectively. The impact upon adoption was not material.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 supercedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs" to exit an activity including certain costs incurred in a restructuring. SFAS 146 requires companies to recognize costs associated with exit or disposal activities when incurred, rather than at the time of commitment. The provisions of the standard call for prospective application to exit and disposal activities initiated after December 31, 2002. The Company does not expect the adoption of the standard will have a material effect on its statement of financial condition.

In January, 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities" ("VIE's"). The Interpretation defines "variable interests" and specifies the circumstances under which consolidation of special purpose entities will be dependent upon such interests. The provisions of FIN 46 are effective after January 31, 2003 for all newly acquired or created interests in VIE's and in periods beginning after June 15, 2003 for all interests in VIE's existing and owned prior to January 31, 2003. The Company has determined that it has no significant interests in VIE's as of December 31, 2002. The Company does not expect the adoption of the Interpretation will have a material effect on its statement of financial condition.

**3. Cash Segregated Under Federal Regulations**

Included in cash at December 31, 2002 is \$431 of cash segregated and secured in accordance with federal and other regulations.



UBS Warburg LLC  
Notes to the Statement of Financial Condition  
December 31, 2002  
(In Thousands)

**4. Securities Owned and Securities Sold, Not Yet Purchased**

At December 31, 2002, securities owned and securities sold, not yet purchased by the Company are as follows:

	<u>Owned</u>	<u>Sold</u>
U.S. Government and agency obligations	\$ 43,907,627	\$ 30,990,231
Mortgage-backed obligations	22,179,736	-
Corporate debt, including convertible securities	35,574,529	5,540,019
Equities and warrants	5,145,221	1,641,664
Options	39,760	32,960
Other	<u>758,185</u>	<u>-</u>
	\$ <u>107,605,058</u>	\$ <u>38,204,874</u>

In accordance with the Commodity Exchange Act, the Company is required to segregate and hold in separate accounts all monies, securities and property received as margin and to guarantee or secure the trades or contracts of customers in regulated commodities. Additionally, the Company uses cash and securities to meet unregulated commodity margin requirements and clearing organization deposits. The amount of securities segregated for regulatory purposes or deposited with clearing organizations, which is included in securities owned amounted to \$1,888,107 at December 31, 2002.

Securities owned, pledged as collateral, represents proprietary positions which have been pledged as collateral to counterparties on terms which permit the counterparty to sell or repledge the securities to others. The Company also pledges securities owned as collateral to counterparties on terms that do not permit the counterparty to sell or repledge the securities, which amounted to \$22,287,591 at December 31, 2002.

Securities sold, not yet purchased, represent obligations of the Company to deliver the specified securities at contracted prices and, thereby, requires the Company to purchase the securities in the market at prevailing prices. The Company's ultimate obligation to satisfy the sale of securities sold, not yet purchased may exceed the amount reflected in the statement of financial condition.

**5. Financial Instruments**

Financial instruments recorded at fair value on the Company's statement of financial condition include securities owned and securities sold, not yet purchased. Other financial instruments are recorded by the Company at contract amounts and include receivables from and payables to brokers, dealers, and clearing organizations, securities purchased under agreements to resell, securities sold under agreements to repurchase, securities borrowed, securities loaned, receivables from and payables to customers, short-term

UBS Warburg LLC  
Notes to the Statement of Financial Condition  
December 31, 2002  
*(In Thousands)*

**5. Financial Instruments (continued)**

borrowings, and subordinated borrowings. All financial instruments carried at contract amounts either have short-term maturities (one year or less), are repriced frequently, or bear market interest rates and, accordingly, are carried at amounts approximating fair value.

The Company's customer activities involve the execution, settlement, and financing of various securities transactions. In addition, the Company executes and clears customer and affiliated customer transactions for the purchase and sale of commodity futures contracts and options on futures contracts. These activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to the customer, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customer's account. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased and the writing of options contracts. Such transactions may expose the Company to off-balance sheet risk in the event that margin requirements are not sufficient to fully cover losses that customers incur, or contrabrokers are unable to meet the terms of the contracted obligations.

In the event a customer or broker fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's or broker's obligations. The Company seeks to control the risk associated with these activities by requiring customers or brokers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires customers or brokers to deposit additional collateral or reduce positions, when necessary.

The Company enters into collateralized resale and repurchase agreements and securities borrowing and lending transactions that may result in credit exposure in the event the counterparty to the transaction is unable to fulfill its contractual obligations. The Company minimizes credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned by the Company when deemed necessary.

In the normal course of business, the Company obtains securities under resale, securities borrowed, and custody agreements on terms that permit it to repledge or resell the securities to others. At December 31, 2002, the Company obtained securities with a fair value of approximately \$266,622,330 on such terms, of which substantially all have been either pledged or otherwise transferred to others in connection with the Company's financing activities or to satisfy its commitments under short sales.

UBS Warburg LLC  
Notes to the Statement of Financial Condition  
December 31, 2002  
(In Thousands)

**5. Financial Instruments (continued)**

Derivative Financial Instruments

Derivatives are financial instruments, whose value is based upon an underlying asset, index or reference rate. A derivative contract may be traded as a standardized contract on an exchange or an individually negotiated contract in an over the counter market. The Company's derivative transactions are primarily in the form of options, futures and forwards. The Company records its derivative activities at fair value.

In the normal course of business, the Company enters into transactions for delayed-delivery, "to-be-announced" (TBA), and when-issued securities for which the unrealized gains of \$1,743,619 and unrealized losses of \$2,020,467 are recorded in other assets and other liabilities and accrued expenses, respectively, on the statement of financial condition at December 31, 2002. A large portion of the Company's derivative financial instruments are TBA mortgage securities requiring forward settlement. As a principal in the mortgage-backed securities business, the Company has outstanding forward purchase and sale agreements committing the Company to receive or deliver mortgage-backed securities. These forward contracts are generally short term with maturity or settlement dates ranging from 30 to 90 days.

The Company enters into transactions in option, futures, and forward contracts with off-balance sheet risk in order to meet the financing and hedging needs of its customers, to reduce its own exposure to market and interest rate risk, and in connection with its normal proprietary trading activities.

Futures and forward contracts provide for the delayed delivery or purchase of financial instruments at a specified future date at a specified price or yield. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from unfavorable changes in interest rates, foreign currency exchange rates or the market values of the securities underlying the instruments.

The credit risk associated with these contracts is typically limited to the cost of replacing all contracts on which the Company has recorded an unrealized gain. The principal counterparty to foreign currency forward contracts is an affiliate.

For exchange-traded contracts, the clearing organization acts as the counterparty to specific transactions and, therefore, bears the risk of delivery to and from counterparties.

**6. Employee Benefit Plans**

The Company participates with affiliates in a non-contributory defined benefit pension plan that provides retirement benefits to eligible employees. Effective December 2, 2001, the defined benefit pension plan was closed to new participants, and new employees were automatically enrolled into the new defined

UBS Warburg LLC  
Notes to the Statement of Financial Condition  
December 31, 2002  
*(In Thousands)*

**6. Employee Benefit Plans(continued)**

contribution plan and will earn retirement contributions based on 4% of eligible compensation, subject to certain limitations prescribed by the Internal Revenue Code, beginning January 1, 2002. In addition, existing employees as of December 1, 2001 made an election either to participate in the new defined contribution plan as of January 1, 2002 or to remain in the defined benefit pension plan.

The Company participates with affiliates in postretirement medical, dental, and life insurance coverage. Postretirement medical and dental is contributory, with retiree contributions adjusted annually and contain other cost sharing features such as deductibles and coinsurance. The postretirement life insurance plan is non-contributory. With respect to postretirement medical and dental, the affiliates' policy is to fund the liability in amounts determined at the discretion of management. With respect to postretirement life insurance, the affiliates' policy is to pay premiums as required by the carrier.

The Company also participates in a defined contribution 401(k) plan.

**7. Employee Incentive Plans**

Selected personnel receive a mandatory portion of their performance-related compensation in shares and stock options of the Parent. These shares and options also receive a matching contribution. For performance years before 2001, the matching contribution was awarded in the form of additional Parent shares (and was only applicable to shares; mandatory options were not introduced until the 2001 performance year) and vesting occurred at the end of the restriction period, generally three years. Effective for the 2001 and 2002 performance years, the match for both the share and option portions is in the form of stock options of the Parent, and vesting occurs ratably over the restriction period. Participants are eligible to receive a portion of their award in alternative investment vehicles, which receive no match. These are generally money market funds, mutual funds or other Parent-sponsored funds.

The Company sponsors other deferred compensation plans for selected employees. Generally, contributions are made on a tax deferred basis. Participants are allowed to invest in alternative investment vehicles. No additional Company match is granted and the plan is generally not forfeitable.

Under long term incentive plans, certain key employees are granted options to purchase parent shares at a price not less than the fair value of the shares on the date the option is granted. Long term stock options vest ratably over three years (subject to location-specific rules). Expiration of the options is generally ten years.

UBS Warburg LLC  
Notes to the Statement of Financial Condition  
December 31, 2002  
*(In Thousands)*

**7. Employee Incentive Plans (continued)**

Commencing in 2002, the Company offered a share purchase plan. The Equity Plus Plan provides eligible employees the opportunity to purchase actual Parent shares at fair market value on the purchase date and receive two options on Parent shares for each share purchased, up to a maximum limit. The options have a strike price equal to the fair market value of the stock on the date the option is granted. Share purchases can be made annually from bonus compensation, or quarterly based on regular deductions from salary. Shares purchased under this plan are restricted from resale for two years from the time of purchase, and the options granted have a two-year vesting requirement and expire ten years after the date of grant. The predecessor plan, discontinued in 2001, offered employees the choice to invest part of their annual bonus in Parent shares, warrants or other derivatives on Parent shares. A holding period, generally three years, applied during which the instruments could not be sold or exercised. In addition, participants in the plan received a matching contribution of additional Parent shares or derivatives. Only the Parent matching contribution was forfeitable. The last vesting under this predecessor plan will take place in 2004.

The Company accounts for the Parent's stock based compensation plans in accordance with APB Opinion No. 25.

**8. Members' Equity**

At December 31, 2002, Members' Equity reported on the statement of financial condition included Class A Members' Shares, Class B Members' Shares and Preferred Members' Shares, all of which were held by the Parent or its wholly-owned subsidiaries. The Preferred Members' Shares are non-voting, may be issued only to the holders of the Company's Class A and B Members' Shares and have preference over such shares in the payment of dividends. Dividends on the Preferred Members' Shares are cumulative and payable quarterly at the London Interbank Offered Rate ("LIBOR"). The Company, with prior written approval of the NYSE, may redeem at any time, any or all of the Preferred Members' Shares outstanding at par value plus an amount equal to accrued and unpaid dividends through redemption date.

**9. Commitments and Contingencies**

The Company is committed to pay rent for office space under non-cancellable leases with minimum annual rental payments. Such leases are subject to escalation clauses covering operating expenses and real estate taxes. The Company has various lease renewal options ranging from five to eight years for substantially all of its leased space, beginning with lease agreements expiring in December of 2003. The minimum annual rental payments are expected to be reduced by various sublease agreements.

UBS Warburg LLC  
Notes to the Statement of Financial Condition  
December 31, 2002  
(In Thousands)

**9. Commitments and Contingencies (continued)**

Expected minimum annual rental payments and sublease income are as follows:

	<u>Minimum Annual Rental</u>	<u>Minimum Sublease</u>
	<u>Payments</u>	<u>Income</u>
2003	\$ 16,213	\$ 11,743
2004	16,406	12,106
2005	16,184	12,730
2006	12,871	11,475
2007	11,653	11,634
Thereafter	77,211	35,919

In the normal course of business, the Company enters into underwriting commitments.

The Company is involved in litigation arising in the normal course of business. In the opinion of management, after consultation with legal counsel, the ultimate resolution of such litigation will not have a materially adverse effect on the Company's financial position.

**10. Related Party Transactions**

Pursuant to various service fee arrangements, the Company provides and receives services to and from affiliates. The receivable and payable balances were \$74,888 and \$63,968, respectively, for the year ended December 31, 2002, and are included in other assets and other liabilities and accrued expenses in the statement of financial condition.

The Company primarily uses office space leased by the Parent.

The Company clears commodity transactions through affiliates. In addition, affiliates clear certain customer and proprietary securities transactions through the Company.

The Company enters into securities and foreign exchange transactions with affiliates in the normal course of business.

UBS Warburg LLC  
Notes to the Statement of Financial Condition  
December 31, 2002  
(In Thousands)

**10. Related Party Transactions (continued)**

As of December 31, 2002, the Company had balances with affiliates as follows:

	<u>Assets</u>	<u>Liabilities</u>
Cash (including segregated and secured funds)	\$ 307	\$ -
Amounts with customers	-	945,183
Amounts with brokers, dealers and clearing organizations	656,127	832,663
Securities borrowed/loaned	9,383,389	11,268,659
Resale/repurchase agreements	14,796,321	52,796,921
Short-term borrowings	-	18,849,200
Accrued interest	33,856	57,924
Other liabilities	-	132,724

Short-term borrowings are due on demand.

**11. Subordinated Borrowings**

The Company has subordinated debt with UBS (USA) Inc, consisting of term loans of \$375,000 maturing on the first day of January 2007, and \$750,000 maturing on the December 31, 2012.

The Company has subordinated debt with UBS Americas Inc., consisting of a term loan of \$525,000 pursuant to a cash subordination agreement, which matures December 31, 2010. In addition, the Company also has a revolving subordinated loan agreement with UBS Americas Inc., an affiliate, which provides a revolving credit line of \$4,450,000 through December 31, 2009, with final maturity at December 31, 2012. As of December 31, 2002, the Company has drawn down \$3,700,000 from this revolving subordinated loan agreement.

All subordinated borrowings have been approved by the NYSE and the CBOT and thus are available in computing regulatory net capital (See Note 13).

UBS Warburg LLC  
Notes to the Statement of Financial Condition  
December 31, 2002  
*(In Thousands)*

**12. Sales of Financial Assets in Securitizations**

During the year ended December 31 2002, the Company securitized (ie., transformed owned financial assets into securities through sales transactions) residential mortgage loans and securities and other financial assets, acting as lead or co-manager. The Company's continuing involvement in these securitization transactions was primarily limited to the temporary retention of various security interests. Proceeds received from residential mortgage and other financial asset securitizations were \$94.4 billion and \$2.4 billion respectively.

At December 31, 2002, the Company retained \$3.8 billion in residential mortgage securities backed by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). These retained interests are generally valued using observable market prices. Retained interests in other financial asset securitizations were not material at December 31, 2002.

**13. Net Capital Requirements and Other Regulatory Matters**

As a registered broker-dealer with the Securities and Exchange Commission (the "SEC"), the Company is subject to the SEC's net capital rule (Rule 15c3-1). The Company computes its net capital requirements under the alternative method provided for in Rule 15c3-1, which requires that the Company maintain net capital equal to the greater of 2% of aggregate customer-related debit items, as defined, or 4% of funds required to be segregated and secured under the Commodity Exchange Act. At December 31, 2002, the Company had net capital of \$2,556,006 which was \$2,417,858 in excess of the required net capital of \$138,148. The Company's ratio of net capital to aggregate debit items was 83%.

Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the net capital rule of the SEC and other regulatory bodies.

The Company is also subject to certain conditions imposed by the Federal Reserve Board, including limitations on certain activities with affiliates.